

Message Text

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TO AMEMBASSY KIGALI

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FOLLOWING REPEAT ABIDJAN 1450 ACTION TREASURY
INFO SECSTATE 11 FEB 77

QUOTE

UNCLAS ABIDJAN 1450

AFDF

DEPT PASS NAC AGENCIES

TREASURY FOR GAASERUD

E.O. 11652: N/A

TAGS: AFDB, EFIN, EAID

SUBJECT: PROPOSED AFDB LOAN TO FINANCE THE GISOVU
TEA PROJECT, RWANDA

1. SUMMARY: AFDB MANAGEMENT PROPOSES 5 MILLION FUND UNIT
OF ACCOUNT(FUA EQUALS 1.11US) LOAN TO GOVERNMENT OF RWANDA TO
FINANCE ENTIRE FOREX COST AND A PORTION OF THE LOCAL COST
OF A) DEVELOPING 700 HA TEAPLANTATION, B) THE CONSTRUCTION
OF A FACTORY FOR PROCESSING OF TEA ON A COMMERCIAL BAIS,
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C) DEVELOPING A 320 HA AFFORESTATION UNIT.

2. AFDF DOC BD/77/09 DESCRIBING PROPOSEDLOAN POUCHED TO
ADDRESSEES FEB 4. BOARD CONSIDERATION SCHEDULED FOR FEB 21.

3. AFDB MANAGEMENT PROPOSES 4.8 MILLION FUA LOAN TO
GOVERNMENT OF RWANDA. LOAN COVERS ENTIRE FOREX COSTS OF

3.46 MILLION FUA AND 1.29MILLION FUA IN LOCAL COST. GOVT OF RWANDA WILL FINANCE REMAINING LOCAL COSTS AMOUNTING TO 803 THOUSAND FUA. PROJECT PROVIDES FOR A) DEVELOPMENT OF 700 HA OF TEA PLANTATION OF WHICH 150 HA WILL BE STATE PLANTATION WITH REMAINING 550 HA TO BE DEVELOPED ON SMALL SCALE FARMER PLANTATION BASIS; B) CONSTRUCTION OF FACTORY FOR PROCESSING TEA ON COMMERCIAL BASIS, WITH PROCESSING CAPACITY OF 1,200 TONS PER YEAR; C) DEVELOPMENT OF 320 HA AFFORESTATION UNIT TO MEET THE FUEL NEEDS OF FACTORY; D) CONSTRUCTION OF SERVICE ROADS; E) CONSTRUCTION OF OFFICES, SHOPS, HOUSING UNITS, AND WORKSHOPS; F) PURCHASE OF VEHICLES, EQUIPMENT, AND MACHINERY; G) PAYMENT OF STAFF SALARIES OF PLANTATION AND FACTORY OPERATIONS FOR FIRST EIGHT YEARS OF PROJECT LIFE. PROPOSED TERMS ARE 50 YEARS AMORTIZATION INCLUDING TEN YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOVERNMENT OF RWANDA TO BE BORROWER; OFFICE DES CULTURES INDUSTRIELLES DU RWANDA, TEA DEPT(OIC), TO BE EXECUTING AGENCY.

4. THE PROJECT IS LOCATED IN THE GISOVU DISTRICT OF THE KIBUYE PREFECTURE. THE TOTAL POPULATION OF GISOVU NUMBERS ABOUT 24,000, ACCORDING TO THE MOST RECENT ESTIMATES. A CONSIDERABLE PART OF THE AREA IS TAKEN UP BY LAND HOLDINGS COVERING 5 TO 10 HA AND OWNED BY FAMILY GROUPS WHICH CULTIVATE THEM JOINTLY. NUMEROUS SMALL HOLDINGS ALSO EXIST WHICH VARY GREATLY IN SIZE. THE MAIN CROPS IN THE KIBUYE PREFECTURE ARE PEAS, MAIZE, AND POTATOES, ALL USED MAINLY FOR LOCAL CONSUMPTION. COFFEE IS THE ONLY INDUSTRIAL CROP IN THE REGION.

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5. THE SMALL, INDIVIDUALLY OPERATED TEA PLANTATIONS WILL BE DISBURSED ALONG TRACKS AND ROADS, WHICH WILL FACILITATE SUPERVISION, HARVESTING AND TREATMENT. THE FARMER WILL BE THE OWNER OF THE PLANTATION AND WILL BE ASSISTED IN THE FOLLOWING OPERATIONS: THE DEMARCATION OF THE SITES; TEA PLANT SUPPLIES; SUPPLY OF AGRICULTURAL MACHINERY, FERTILIZERS, AND PEST CONTROL CHEMICALS; EXTENSION SERVICES AND TECHNICAL ASSISTANCE; AND PRODUCE PURCHASES. THE FARMER WILL BE SOLELY RESPONSIBLE FOR: SOIL PREPARATION(CLEARING, LABOR, PROVISION OF ANTI-EROSIVE NETWORK, ETC.); PLANTING; MAINTENANCE, CULTIVATION, AND SOIL FERTILIZATION OPERATIONS; TRIMMING; AND HARVESTING. FARMERS WILL BE ASSISTED IN FORMING PRODUCTION AND MARKETING CO-OPERATIVES. THE OPERATIONS OF THE 150 HA STATE-OWNED INDUSTRIAL PLANTATION UNIT WILL BE CONDUCTED DIRECTLY BY SALARIED WORKERS AS PART OF THE PROJECT. THE OPERATION OF THE FACTORY AND THE AFFORESTED AREA WILL ALSO BE CARRIED OUT UNDER THE PROJECT BY SALARIED WORKERS.

6. THE PROJECT ALSO INCLUDES PLANS FOR AN INTERNAL ROAD

NETWORK. PLANS CALL FOR REHABILITATION OF 15 KM OF EXISTING ROADS; CONSTRUCTION OF 17.5 KM OF NEW ROADS; CONSTRUCTION OF 45 KM OF TRACKS; CONSTRUCTION OF ACCESS ROAD TO THE FACTORY (1 KM); AND MAINTENANCE OF THE NETWORK. THE PROJECT PROVIDES FOR CONSTRUCTION OF HOUSES FOR THE STAFF, COLLECTIVE ACCOMMODATION UNITS, SHOPS, OFFICES, WORKSHOPS, AND TEA LEAF COLLECTION CENTERS. HOUSING ACCOMMODATIONS, THE ROAD NETWORK, AND TEA LEAF COLLECTION CENTERS WILL BE CONSTRUCTED DURING THE FIRST 3 YEARS (BEGINNING OF PROCESSED GREEN LEAVES OUTPUT). THE CONSTRUCTION AND EQUIPPING OF THE FACTORY WILL BE IN TWO PHASES; THE FIRST PHASE WILL BEGIN IN THE THIRD YEAR OF THE PROJECT, WITH GREEN LEAVES PROCESSING CHAIN READY TO BE UTILIZED DURING THE SIXTH YEAR. A SECOND PROCESSING CHAIN WILL BE COMPLETED IN THE EIGHTH YEAR. PROCUREMENT OF ROLLING STOCK, FERTILIZERS AND OTHER PRODUCTS ARE PROJECTED ON THE BASIS OF ACTUAL PROJECT REQUIREMENTS TO ELIMINATE OVERRUN EXPENDITURES. MANAGEMENT STAFF OF THE

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PLANTATION AND FACTORY MAY BE RECRUITED FROM ANY AFDF/AFDB MEMBER STATE.

7. AT FULL PRODUCTION THE 550 HA SMALL-SCALE FARMER PLANTATIONS ARE EXPECTED TO PRODUCE 935 TONS ANNUALLY. THE 150 HA STATE INDUSTRIAL PLANTATION UNIT IS EXPECTED TO PRODUCE 255 TONS ANNUALLY. THE FACTORY'S FINANCIAL RATE OF RETURN BASED ON REFERENCE TEA PRICES AND ON 30 YEAR LIFE OF THE PROJECT IS ESTIMATED AT 15.5 PERCENT. THE FACTORY IS PROJECTED TO HAVE AN OPERATING DEFICIT THROUGH THE EIGHTH YEAR OF THE PROJECT LIFE. FROM THE NINTH YEAR THERE IS AN INCREASING SURPLUS WHICH IS ADEQUATE TO MEET ALL LOAN PAYMENTS. THE PROJECT'S ECONOMIC RATE OF RETURN IS ESTIMATED AT 11 PERCENT. A TEN PERCENT PROJECT OVERRUN COST WOULD DECREASE THE ECONOMIC RATE OF RETURN TO 8.4 PERCENT. IT IS ESTIMATED THAT 2,300 FAMILIES WHICH ARE NOW DEPENDENT ON SUBSISTENCE FARMING WILL BE PROVIDED A SOURCE OF INCOME. INCOMES IN THE REGION ARE EXPECTED TO RISE FROM 45 PERCENT OF THE NATIONAL AVERAGE TO 75 PERCENT OF THE NATIONAL AVERAGE INCOME.

8. NOTE: US REP UNDERSTANDS THAT THIS PROJECT WAS INITIALLY CONSIDERED FOR BANK FINANCING BECAUSE OF COMMERCIAL PRODUCTION ASPECTS OF THE PLAN. HOWEVER, PROJECT WAS DIRECTED TO FUND DUE TO ECONOMIC CONDITIONS IN BORROWING COUNTRY. STEARNS UNQUOTE VANCE

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